

A golden chance

Just a decade ago Indonesia was on the brink of catastrophe. Things have taken a dramatic turn for the better, says Simon Long.



Getty Images

Countries generally hit the headlines only when the news is bad. In Indonesia it has often been spectacularly bad. A decade ago there were fears that the country might disintegrate in a welter of violence, piracy and mass migration. Its former dictator, Suharto, set new standards for kleptocracy. As he fell in 1998, the economy collapsed. The Bali bombing of 2002 that killed more than 200 people was one of a series of such attacks, and the lingering danger of Islamic terrorism was recalled by another murderous blast in Jakarta in July this year. The country is prone to natural disasters too, from the tsunami that devastated parts of Sumatra in 2004 to this month's deadly earthquake in Java.

So Indonesia has an image problem. Foreigners may not realise, its boosters defensively suggest, that the world's third-largest democracy and fourth most populous country, with more Muslims than any other, is actually doing rather well. It enjoys political stability under a popular incumbent president, Susilo Bambang Yudhoyono (pictured above). The bombing in Jakarta was the first such atrocity for nearly four years. Economic growth has slowed, but the country has withstood the global slump well. Of big countries, only China and India are growing faster.

It still has enormous problems. Separatist tensions have eased, but it remains prone to sectarian and ethnic violence. Mr Yudhoyono has not met his promise in 2004 of halving the number of people living below the government's poverty line. More than 15% of Indonesia's 240m people are poor. Unemployment is high, at about 8%, and the workforce is growing faster than in any other country apart from India and China. Inequality has actually widened a little. Those who looted the country under Suharto, and the soldiers who connived at terrible abuses, have enjoyed almost total impunity. Indonesia is still one of the world's most corrupt countries. Its infrastructure is in woeful shape. And as another El Niño weather pattern takes hold, choking smog caused by forest fires is already smothering parts of Sumatra, drawing attention to Indonesia's role as the world's third-largest emitter of carbon.

Causes for hope

There are, however, four big reasons for optimism. The first is demographic. Over the next few years, thanks to a combination of a young population and a falling birth rate, Indonesia will see a surge in the ratio of its working population to the number of dependants. Next year, for the first time, more than half the population is likely to be living in urban areas, implying a further boost to consumption, the country's main source of economic growth.

Second, fiscal restraint in recent years has left the government with the resources to spend more on Indonesia's deficient infrastructure and public services. Having withstood the slump of the past year remarkably well, Indonesia is well placed to maintain solid growth rates for years to come. Considered a basket-case not so long ago, it is now seen as an extra "I" in the BRIC group of big, fast-growing emerging markets (Brazil, Russia, India and China).

Third, Mr Yudhoyono's re-election in July gives him a mandate for the reforms Indonesia needs. His victory probably owed much to his reputation as a doughty warrior against corruption, and to his policy of giving cash handouts to the poor. In the election campaign he and his running-mate, Boediono, a well-respected former central-bank governor, were attacked as "neo-liberals" by opponents playing the card of anti-foreign economic nationalism, but many voters simply seem to have shrugged this off.

And that leads to the fourth reason for optimism. Despite serious flaws in the electoral system and in the mishmash of parliamentary and presidential constitutions Indonesia has designed for itself, it seems likely to enjoy a period of political stability. Democratisation has been a mess, and much needs fixing. But Mr Yudhoyono now has the breathing-space to try.

More of the same, please

A ringing endorsement from the voters.



Megawati and Prabowo enjoy their fruitless moment in court – EPA

Any young democracy must clear two big hurdles. It must undergo a peaceful transition from a leader to an opponent, and it must see an incumbent win an election without credible cries of foul. Indonesia has now crossed both barriers. In its first direct presidential election in 2004, the incumbent, Megawati Sukarnoputri, lost to Mr Yudhoyono. Miss Megawati, daughter of Indonesia's founding hero and leader of a tame opposition under Suharto, went into a sulk and boycotted Mr Yudhoyono's swearing-in. But power was handed over smoothly enough.

On July 8th this year Mr Yudhoyono won re-election in a landslide. This time both Miss Megawati, his main rival, and the also-ran, Jusuf Kalla, mounted formal challenges to the result. But few seriously doubted that it reflected the popular will. Mr Yudhoyono won 61% of the vote, compared with 12% for Mr Kalla, who had been his vice-president, and 27% for Miss Megawati. This dispensed with the need for a second-round run-off.

A clear message		
Indonesia's parliamentary-election results		
April 2009		
Party	% of votes	Seats won
Democratic Party & Islamic-party allies	45.0	314
Golkar	14.5	107
Democratic Party of Struggle (PDI-P)	14.0	95
Gerindra	4.5	26
Hanura	3.8	18
Other	18.2	nil*
Total	100	560

Source: General Election Commission

*No seats awarded to parties winning less than 2.5% of the vote

Indonesia's electoral system is impenetrably complex. In April, for the election of members of the parliament in Jakarta, known as the DPR, 171m voters across more than 900 inhabited islands had 38 national parties to choose from. To run for president, a candidate needed nomination by parties commanding at least 20% of the DPR or 25% of the popular vote. Only Mr Yudhoyono's Democratic Party had the numbers to nominate its man without outside help (see table 1).

Miss Megawati's Indonesian Democratic Party of Struggle, or PDI-P, went into league with Gerindra, a party led by Prabowo Subianto. Mr Prabowo was once married to Suharto's daughter, and as one of the former dictator's special-forces commanders is accused of human-rights abuses. Mr Kalla, of Golkar, Suharto's political vehicle, teamed up with another controversial former general, Wiranto.

There was much to admire in the presidential election. The campaign was largely peaceful and the press coverage was vibrant and fair. The three presidential platforms were clearly different. Mr Yudhoyono offered "more of the same": stability tempered with modest reform. Mr Kalla promised (or, to judge from the voters' reaction, threatened) faster reform. Miss Megawati and, especially, Mr Prabowo cast themselves as nationalist populists, proposing to reschedule Indonesia's foreign debt to release money for the poor. Turnout, though low compared with the previous democratic elections, was high by international standards: about 70%.

The SBY effect

Moreover, in the eyes of most Indonesians as well as foreign observers, the best man won. Miss Megawati was not much of a president. Mr Kalla fought a sharp and good-humoured campaign, but he could not quite shake off his image as a Suharto-era business crony dabbling in politics.

By contrast, Mr Yudhoyono, widely known as "SBY", seems both competent and hugely popular. Sound economic management has left Indonesia in a strong position to withstand the global downturn. His policy of giving direct cash handouts to the poor made economic as well as electoral sense. Separatist and sectarian conflicts in Aceh, Ambon and Sulawesi have abated. Terrorist attacks, until July's bombing in Jakarta, had been rare.

To foreigners, Mr Yudhoyono can seem rather aloof and ponderous, but many Indonesians see a decent man with a presidential manner. His critics charge him with being a ditherer, but his supporters say he will now prove them wrong. In his first term the Democratic Party needed

the support in the DPR of Golkar and some smaller parties. Now the Democrats have become the biggest party, and their coalition partners—four small Islamic parties—will have less chance of holding the government to ransom. Mr Yudhoyono's position will be even stronger if Golkar, never comfortable in opposition, also decides to rejoin the government. He has promised to include more technocrats in his cabinet. His choice of running-mate, Boediono, was an earnest of his intentions.

Mr Yudhoyono, too, was a general under Suharto. But unlike Mr Prabowo and Mr Wiranto, he emerged without being credibly accused of complicity in extra-judicial killings or torture. Indeed, most criticism of his time in the army echoes that of his first term as president: that he was too indecisive. According to one possibly apocryphal story, the soldiers under his command in East Timor lost patience as they waited for his orders to attack a rebel-held hill, and took it without him.

Under Mr Yudhoyono's presidency the army shows little sign of such insubordination. Remarkably, only a short time after the end of a military dictatorship, a coup seems rather unlikely. Such judgments can be wrong: much the same was said, and soon disproved, of Thailand in the late 1990s. The Indonesian army played an even more pivotal role than the Thai one. Under Suharto it had *dwifungsi*, the "dual function" of helping to run the country as well as defending it. Now serving soldiers are barred from political office; indeed, the 410,000 members of the armed forces do not even have votes.

The defence minister, Juwono Sudarsono, an academic whom Mr Yudhoyono befriended in the early 1990s, argues that since Indonesia at the time of "reformation" in 1998 lacked a civic tradition, the only institution with "overarching reach and capacity" was the army, the "fulcrum of political life". But the army's relative lack of clout has been reflected in a budget that Mr Juwono describes as covering just 30% of what is needed, though it is now being beefed up.

Nor can the army any longer supplement its official budget so lucratively with the income from myriad businesses. It has gradually divested itself of its prominent role in much of the economy—from plantations to supermarkets, from office blocks to airlines. Mr Juwono says that of more than 1,500 army enterprises, only five "viable" businesses are left, and these will be disposed of by October, leaving only a few "low-level" co-operatives. But the army remains accused of informal, corrupt links with business, demanding protection money or providing security services to companies for chunky fees.

The scaling-back of the army's role is just one of many surprising achievements of Indonesian democracy. But it remains hard to feel entirely comfortable about a system that, 11 years after what looked like a revolution against a corrupt autocracy, produced a presidential contest of three tickets headed by, respectively, the incumbent, his deputy and his predecessor, and each featuring one of Suharto's generals.

Most Indonesians seem content to shrug off any doubts about the process and to congratulate themselves that democracy seems to be working. But there are grounds for concern. Adam Przeworski, a political scientist, once defined democracy as a way to institutionalise uncertainty. In Indonesia, the complex election process might have been designed to endorse a foregone conclusion.

The biggest worry is the electoral system itself. Evolving electoral law has sought to reflect the country's diversity while keeping the number of parties to a manageable level, so parties have to win at least 2.5% of the national vote to take seats in the DPR. Votes for parties that fall below this threshold are redistributed among those that exceed it—a total of nine this year. So some candidates who won the popular vote in their constituencies are excluded from the DPR,

and parties that between them garnered 18% of the national vote ended up with no representation at all, which may alienate some voters.

One party that did make the grade is Mr Prabowo's Gerindra, which spent a lot of money on perks to supporters and on advertising. Mr Prabowo's brother, Hashim Djojohadikusumo, made a fortune in oil in Central Asia and has ploughed some of it into politics at home. H. Zulkieflimansyah, of the Prosperous Justice Party, or PKS, the most successful of the Islamic parties, cites Gerindra's rise from nowhere as evidence of a depressing trend: "People will vote for those who give them money."

This sounds like sour grapes. Money does play a big part, and at the village level many voters are subject to blandishments or intimidation from the local headman, who may in turn have been promised rewards or threatened with sanctions by politicians in higher tiers of government. But many Indonesians will take whatever freebies are on offer and cast their secret ballot as they would have done anyway.

A more serious concern is the absence of a national, computerised register of voters. The list for the parliamentary elections produced by the independent election commission was flawed. Millions may well have been excluded, including many migrants in big cities such as Jakarta. But nobody has produced compelling evidence of a conspiracy as opposed to incompetence. It was, says one analyst, "equal-opportunity disfranchisement".

Registering a complaint

For the presidential poll the list was improved somewhat, and the Constitutional Court helped by ruling that unregistered voters could cast ballots if they produced their identity cards. What really saved the day, however, was the margin of Mr Yudhoyono's victory. According to Marcus Mietzner, an expert on Indonesia at the Australian National University, "with a tighter field of candidates the electoral system would collapse." He points to three closely fought regional elections in recent years—in North Maluku, South Sulawesi and East Java—that resulted in fiercely contested outcomes.

Indeed, it was the scandal this year over a governor's election in East Java, won by a candidate backed by the Democratic Party, that did most to raise doubts about the integrity of the system. More than a quarter of the names on the list were found to be duplicates or bogus. The police commander who unearthed the irregularities was shunted into early retirement, giving a strong impression of a cover-up.

The parties themselves lack any clear ideological or social base. Mr Mietzner contrasts this with Indonesia's failed experiment with democracy in the 1950s, when politics was dominated by three powerful forces with different visions: nationalists, Communists and Islamists. Now all the parties accept the basic contours of the Indonesian state. They differentiate themselves by their distinctive cultures and by the personalities and lineages of their leaders.

The Democratic Party, for example, in Mr Zulkieflimansyah's scathing but not wholly unfair analysis, is simply "an SBY fan-club". Formed in 2001 to back Mr Yudhoyono's presidential aspirations, it relies on his popularity for its success but still lacks a substantial grassroots organisation or clear policy programme. This explains why Mr Yudhoyono felt the need, soon after winning this year's election, to deny that his family had plans for his wife to succeed him when he reaches the end of his second and final term in 2014. Some members of his party had indeed hoped she might; others speculate that, with a parliamentary majority large enough to amend the constitution, he may in time face pressure to abolish term limits. Mr Yudhoyono claims his family has no political ambitions beyond 2014, but his failure to build up the party, or let another strong leader emerge from within it, opens the way to such speculation.

The opposition PDI-P's dynastic ambitions are clearer. Among Miss Megawati's likely successors are her daughter and her brother. Many of the smaller parties are also family concerns. Of the big three parties, only Golkar combines a grassroots organisation with some non-hereditary leadership competition. With its origins in the Suharto "new order" regime, Golkar seems a waning force, but its big-business backing and nationwide reach mean it is unlikely to fade away.

Defending the failure of the system to come up with new faces, Indonesians often argue that the Suharto years inhibited the development of a generation of political leaders. But 2014, they say, will be different, as politicians emerge from the new DPR or from popular regional or local government. It is true that the DPR is full of new faces—two-thirds of members are newly elected and 60% are under 50—and that decentralisation has produced impressive local leaders, some of whom may aspire to the national stage. But few observers would rule out a presidential contest in 2014 fought out among the present incumbent's wife, the opposition leader's daughter, a Suharto-era general with a human-rights problem and a Golkar businessman recycled from the 1990s.

Free to air

From dissident outcast to mainstream media.

Had things turned out differently, Santoso might have been in jail or in exile by now. In the late 1990s, as chairman of the Association of Indonesian Journalists, a union formed to fight the restrictions of the Suharto years, he spent time in hiding. Now he is managing director of a thriving radio station whose programmes are syndicated to 650 stations in Indonesia and to ten other countries. One of the greatest victories of the reformasi movement of 1998 has been the freedom of the press.

Of all the media, news radio may have suffered most under Suharto. There were over 700 private stations, but they were banned from producing their own news programmes and had to take bulletins produced by state radio. After Suharto fell, Mr Santoso and his colleagues saw an opportunity. In the vast archipelago, radio offers a cheap and effective way to disseminate news. Their station, KBR68H, opened in 1999 with a false start as it tried to distribute programmes over the internet. Partner stations had to spend hours downloading programmes. Satellite proved a better alternative.

KBR68H now has 120 staff, including 50 Jakarta-based journalists. Its local partners provide a nationwide network of reporters. It even has a workable business model, though partners pay only a tiny subscription of \$15 a month for the programmes. One of many international awards it has won, the King Baudouin prize for international development, has produced enough money to finance a new studio. But most of the revenue comes from advertising. The election season proved lucrative. Now Mr Santoso is expanding, setting up a station for Jakarta concentrating on environmental issues and a brace of television programmes.

He has never had any trouble from government censors, though angry Islamic groups once took to the streets against the station. In recent years the Constitutional Court has struck out clauses that made it a crime to insult leading politicians, but defamation laws remain a constraint on the freedom of expression. Earlier this year there was outrage over the conviction of Prita Mulyasari, a woman who had complained on Facebook about her treatment at a hospital. The case was thrown out on appeal, but the prosecutors, in turn, have appealed.

Things do not fall apart

Because the centre does not hold.



Aceh at peace – Reuters

The Suharto regime used to argue that if East Timor became independent, it would set off an archipelagic chain reaction. So when in 1999 East Timor voted for independence, Indonesian soldiers and their local allies responded with a furious burst of arson and violence. With this disaster coming so soon after the Indonesian economy collapsed, there were fears that Indonesia might unravel. To make matters worse, an ethnically, linguistically and culturally diverse archipelago was dominated by Java and the Javanese. It still is.

The response to the resentments and frictions left behind by the Suharto years included one of the most ambitious decentralisation programmes attempted anywhere. In the first stage of this, in 2001, the two provinces with the strongest claim to statehood—Papua (since divided into two provinces, Papua and West Papua) and Aceh—were granted enhanced autonomy.

Meanwhile resources and responsibilities were transferred from central government to subnational ones—primarily provinces and kabupaten, or districts—which became responsible for most public services. From 2005 direct elections were introduced both for provincial governors and heads of districts (bupatis) and municipalities (mayors), creating a new breed of accountable local officials with their own constituencies.

Indonesia's current integrity as a country is a tribute to these policies. Devolution may also have helped restore a degree of social harmony in places such as Poso (in Sulawesi) and Ambon (in Maluku) which had been riven by sectarian violence between Muslims and Christians.

One of the proudest achievements of the first Yudhoyono administration was the 2005 accord that ended the long-running secessionist war in Aceh. The rebels abandoned the fight for independence in exchange for a role in the politics of an autonomous Aceh. The compromise was helped by a number of factors. It followed the devastating tsunami of December 2004; the

rebels were militarily weak; and Mr Yudhoyono's government may have wanted peace not just for its own sake but to diminish the army's political clout. Four years on, the province is hardly tranquil. Before the election in April three former insurgents were murdered in mysterious circumstances. But the fight now seems to be over the spoils of peace instead of presaging renewed war.

Papua, a treasure-house of mineral and timber resources, is more of a threat to Indonesia's international reputation. Forlorn separatists there are still locked up for unfurling flags. But the security forces themselves seem to be as much of a danger as the protesters. Human-rights groups have found a pattern of violence and torture familiar from the army's earlier campaigns. Killings near the huge Freeport-McMoRan gold and copper mine in July seemed as likely to be the result of a feud between the army, police and paramilitary forces as an attack by secessionists.

Solo performance

Elsewhere, devolution has had some successes. Local leaders such as Joko Widodo, mayor of the city of Solo in Central Java, and Herry Zudianto, his counterpart in nearby Yogyakarta, have done much to make citizens feel that it is in their democratic power to improve the often dreadful standard of public services. And devolution has given a chance to talented local leaders from outside the civil service or army. Mr Joko runs a furniture business, Mr Zudianto a chain of fashion shops.

But devolution has exacted a high price—in squandered resources, administrative confusion and, in some instances, paralysis in decision-making. President Yudhoyono has called for a moratorium on the proliferation of new districts, the number of which has quintupled since 1951. The process often seems driven by the local elites' hopes of enriching themselves at the central government's expense.

Another difficulty is the separation between the sources of funds and the responsibility for spending them. Most public services are now provided by local governments, but 80-85% of their revenue typically comes from Jakarta, as it does in Solo and Yogyakarta. In part this is a result of an attempt to spread national wealth more evenly. In a second "big bang" reform in 2006, transfers to subnational governments increased by almost 50%, by the World Bank's calculation, mainly benefiting the poorer provinces. But local governments' shortcomings mean that this rarely translates into reduced inequality.

Decentralisation has left an administrative muddle. In particular, the role of provincial governments—which are also directly elected—is unclear. A recent report by the United Nations Development Programme describes them as the "missing link", awkwardly squeezed between central government, which has the money, and district and municipal administrations, which have the power.

The potential for wrangling is heightened by party politics. It is quite possible for a district to have a bupati from one party, a provincial governor from another and DPR representation from a third. All this may be messy, but not nearly as messy as the alternative that seemed a real prospect only ten years ago: a break-up of the Indonesian state.

Tolerance levels

Muslims in Indonesia may be becoming more pious, but not necessarily more extreme.



Relapse in Jakarta – AP

One day in June 2007 Dago Simamora, a junior high-school teacher in Palembang in South Sumatra, picked up his nine-year-old son from school. On the way home he was shot dead. His killer scooted away on a motorcycle. The police at first blamed the murder on a land dispute. Only when the culprits were arrested a year later did it emerge that Mr Simamora had been killed because he was a Christian, accused of trying to convert the girls in his class. In April this year ten members of the Palembang jihadist group that killed him were jailed on terrorism charges.

Apart from this one “success”, the group had a history of botched bombing and murder plots. But as the International Crisis Group (ICG), a think-tank, noted in a report, their story showed how easy it is for a group of law-abiding individuals to be drawn into terrorism. From peaceful beginnings as a study group worrying about Christian proselytising, its members progressed to violence (using a hammer, to start with) and became potential mass murderers. A crucial role was played by charismatic, footloose jihadists affiliated to Jemaah Islamiah (JI), a transnational South-East Asian group behind a series of bombings in Indonesia in the early 2000s, including the deadly Bali one in 2002.

Indonesia remains vulnerable to the violence of a fanatical fringe. After the bombings in Jakarta in July the police at once suspected JI or its offshoots and, in particular, Noordin Mohammed Top, a fugitive Malaysian, who had graduated from JI to form his own gang.

The unexpected attack raised questions about Indonesia’s counter-terrorism policy. But that it was the first such bombing since 2005 suggested that the terrorists have become marginalised. Two new anti-terrorist squads have succeeded in breaking up JI cells, and reformed militants have helped with trying to “deradicalise” others by explaining the error of their ways to them, with mixed results.

Indonesia’s main strength in fighting extremism, however, has been its own tradition of moderation and tolerance. Having absorbed influences from pre-Islamic faiths—Hinduism and indigenous beliefs—its version of Islam has been less doctrinaire than elsewhere in the Muslim world.

There has always been tension between this tradition and the efforts of some Muslim "modernists" to encourage greater orthodoxy. This is reflected in Indonesia's two great Islamic organisations. The traditionalist Nahdlatul Ulama (NU), with 40m-50m members, is strongest in the countryside. The modernist Muhammadiyah has some 35m members, mainly urban. By contemporary standards both are bastions of moderation. They are also huge enterprises. Muhammadiyah, for example, runs 14,000 schools, 169 institutions of higher learning, about 500 health centres including 171 hospitals, 700 orphanages and 400 microcredit institutions.

Both have considerable political influence. A former leader of NU, Abdurrahman Wahid, served a wayward stint as president from 1999 to 2001. His counterpart at Muhammadiyah, Amien Rais, a leader of the 1998 reformasi movement, also formed a political party.

Both parties are in Mr Yudhoyono's coalition, and hence contribute to the considerable Islamic input into policy formation. Neither did as well in the parliamentary elections as another Islamic party, the PKS. This started life as an underground student movement in the 1990s and is the one most feared by those who worry about the potential Islamisation of Indonesian politics. But the PKS is split, struggling to attract moderate, secular voters without alienating its core supporters. It did little better in this year's election than in 2004. And as a group, the Islamic parties saw their share of the vote fall from 38% to 29%.

Who cares about their hair?

In the presidential election there was a kerfuffle over claims that the wife of Boediono, Mr Yudhoyono's running-mate, was a Christian. It was noted that neither she nor the president's wife wears a headscarf. But on the whole religion was not an issue. Moreover, Jusuf Kalla, whom both Islamic organisations favoured for the presidency, seemed to make little impression on the voters.

Din Syamsuddin, Muhammadiyah's current chairman, takes comfort in the presence, among the 560 DPR members, of 161 with a "Muhammadiyah social background". Masykuri Abdillah, an NU vice-chairman, argues that the performance of the Islamic parties matters less now that "all parties promote religious values".

It is true that last year, when the first Yudhoyono administration was losing support to Miss Megawati's PDI-P, the Islamic parties were able to push it into backing two reactionary pieces of legislation. One was ostensibly meant to curb pornography but might also be used, for example, to ban traditional dances and thus persecute minorities. The second was a decree "freezing" the activities of the Ahmadiyah sect, a branch of Islam with adherents in many countries but seen as heretical by some Muslims. These capitulations suggest that less tolerant forms of Islam will gradually become more dominant in Indonesia.

If young people seem to be rejecting Islam at the ballot box, many seem to be more devout in their private lives. Growing numbers of women are wearing headscarves. There is a vogue for "Muslim only" middle-class housing estates. And some district governments have introduced sharia-based local laws (though in some cases, it seems, mainly in the hope of raising revenue from fines).

A more worrying type of Islamisation is the authorities' reluctance to stamp out violence by the Islamic Defenders' Front, or FPI. This group, founded in 1998, which the ICG says is "basically an urban thug organisation", has a record of bloodily intimidating Christians, Ahmadis and those offending its puritanical morality.

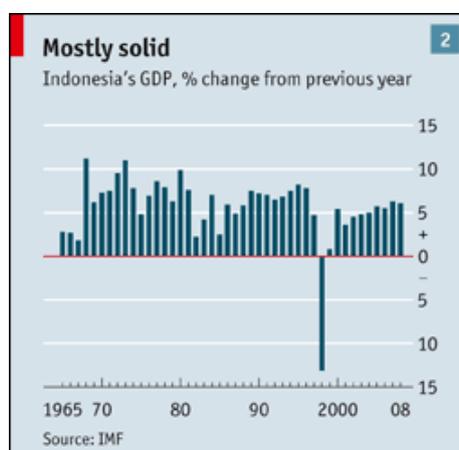
But liberal Muslims are getting organised too. Uuil Abshar-Abdallah, a founder in 2001 of the "Liberal Islam Network", takes heart from the Islamic parties' poor showing in the elections. He

sees the Ahmadiyah ban and the anti-pornography law as Indonesian liberals' "Rosa Parks" moment, a reference to the birth of the American civil-rights movement. For the first time, he says, the disparate array of liberal groups has united in opposition to the new measures.

Both the Palembang group and the Jakarta bombers seem to have had ties to pesantrens (Islamic boarding schools) with JI affiliations. Sidney Jones of the ICG reckons there are about 50 such schools, but the authorities have let them be. The danger in Indonesia seems to be not so much the strength of Islamic extremism but the difficulty of confronting it in a free and tolerant political system.

Surprise, surprise

Never mind the risk premium, feel the stability.



In ruins just a decade ago, Indonesia's economy these days seems a remarkably sturdy structure. Having been worse hit than any other by the Asian economic crisis of 1997-98, it has, by some measures, weathered the global slump of 2008-09 surprisingly well. Economic growth has slowed by less than in most other big countries. In part that is a gauge of its underachievement compared with faster-growing China and India. Indonesia's GDP growth will decline from 6.1% in 2008 and 6.3% in 2007 to perhaps 4% this year, compared with nearly 8% in China and 6% in India. But given Indonesia's starting-point a decade ago, that is still impressive.

In 1998, when Suharto lost power, Indonesia suffered an economic meltdown. GDP contracted by 13% in that year alone. The rupiah fell from around 2,000 to the dollar in 1997 to nearly 17,000 at one point. The financial system collapsed and 68 banks were closed. Recapitalising the banking system cost \$88 billion at 1999 exchange rates, some 70% of GDP. Many businesses crumbled under the weight of their foreign debts. Tens of millions of Indonesians fell below the poverty line.

Recovery was unexpectedly quick. Annual growth averaged a respectable 5.4% in 2003-07 (though it did not regain the 6.5% average achieved for three decades under Suharto), and by 2005 GDP per person had recovered to its pre-crisis level of 1997. It is now over \$2,200, higher than in the Philippines or Sri Lanka.

Yet, as global markets quivered in late 2008, the rupiah again came under pressure. In the six months from October 2008 the Jakarta Stock Exchange index fell by more than any other in Asia except Vietnam's. The spreads on Indonesian credit-default swaps, a measure of

investors' perception of the riskiness of the country, soared to over seven percentage points. But this time the storm passed quickly. In the first half of 2009 the Jakarta stockmarket rose more than any other Asian market except Mumbai's and Shanghai's. By mid-2009 the rupiah had regained the bulk of its losses against the dollar.

Indonesia has found it easier to withstand the slump because its growth depends much less on trade than on domestic household consumption. Exports are equivalent to only about 25% of GDP, compared with over 100% in Malaysia in 2008. Moreover, Indonesia's exports remain dominated by oil, gas and, increasingly, palm oil and coal, so the country was less exposed to the sudden and drastic destocking that caused trade in manufactured goods in Asia to dry up in late 2008.

Sri Mulyani Indrawati, Indonesia's finance minister in Mr Yudhoyono's first term, thinks there are "more serious" explanations of Indonesia's resilience than its limited exposure to the global economy. More fundamental, she argues, are the reforms the government has put in place—improving legislation, simplifying regulations, reforming the bureaucracy and changing the pattern of government expenditure by cutting subsidies and investing more in infrastructure and education.

A different model

Miss Mulyani, one of Mr Yudhoyono's technocratic appointees, is much admired by foreign bankers and businessmen. Thanks to people like her, Indonesia has once again begun to be regarded almost as a model of a sensibly run developing economy, just as, incredible though it now seems, it was for much of the Suharto period. Wolfgang Fengler of the World Bank says that the most remarkable achievement has been to cut public debt from about 80% of GDP in 1999 to just over 30% at the end of 2008.

The secret of this success has been extreme fiscal restraint, despite an expensive devolution of power. The government has recently been running a budget deficit of around 1% of GDP, well below the legally mandated limit of 3%. In 2008 the budget was nearly in balance. In response to the global slowdown the deficit this year will be allowed to rise to about 2.5% of GDP, a very modest stimulus by international standards. In the budget for next year the deficit will come down again to 1.6%.

Carelessness costs lives 3			
Country/ group	Life expectancy, years*	Infant mortality per '000 births*	Maternal mortality per 100,000 pop., 2005
Bangladesh	64	52	570
China	72	20	45
India	64	57	450
Indonesia	68	26	420
Malaysia	74	10	62
Philippines	71	24	230
Sri Lanka	75	11	58
Thailand	70	7	110
Vietnam	71	15	150
East Asia & Pacific	67	35	286
Lower middle- income countries	68	34	233

Source: World Bank * Latest available

This shows admirable self-discipline but leaves the government open to two big criticisms of its fiscal management: that it is not spending enough money, and that it is spending it on the wrong things. The clearest measure of this is to look at some of Indonesia's "human-development indicators" (see table 3), which have improved markedly over the past 30 years. In 1980 life expectancy was only 52 years, and 10% of infants did not live beyond their first birthday. But the indicators are still far worse than they should be in a middle-income country, and not as good as those of Indonesia's regional neighbours. The maternal-mortality rate is particularly worrying, pointing to serious problems.

One reason is the misdirection of public money. Despite Miss Mulyani's boast about cutting subsidies, the most important of which lower the price consumers pay for fuel and electricity, they still account for about a quarter of all government expenditure. Indeed, if non-discretionary spending—transfers to the regions, interest payments and so on—is excluded, subsidies make up 51% of what is left, without even counting farm subsidies.

Fuel subsidies are political dynamite. When they were cut at the IMF's behest in early 1998, the ensuing riots helped bring Suharto down. Miss Megawati twice had to back down from reducing them. Mr Yudhoyono has been bolder, better prepared and perhaps luckier, twice cutting the subsidy in 2005 and then again in 2008 as the oil price soared. But the fall in the oil price early this year was passed on to consumers, missing a chance to reduce the subsidy further. In defence of this decision, Miss Mulyani has one limp argument—that consumers have to get used to fuel prices going both up and down—and one unanswerable one—that, so close to an election, no one will tackle subsidies.

The politics may be intractable, but they are based on a fallacy. Subsidies in Indonesia, as elsewhere, go disproportionately to the rich. According to the World Bank, only 10% of Indonesian fuel subsidies benefit the poor. Consumption even of kerosene, the cause of the 1998 riots, mostly increases with income.

The difficulty is not just the lack of funds for better-directed public spending. It is, in Miss Mulyani's words, that "the ability to spend is not there." The central government has never been good at disbursing budget allocations, and lower-level governments are worse. Many are sitting on huge cash balances because they lack what she calls "the administrative and institutional capacity" to invest properly in infrastructure and public services. A recent drive against corruption may have added a further brake: in a system prone to inertia, doing nothing looks less suspicious than doing a lot.

So Indonesia's credit-crunch stimulus was unusual in coming mostly in the form of tax cuts. Spending promises might well have gone unfulfilled. But Indonesia urgently needs more and better spending on its transport and power-generation infrastructure and public services, and on health care and education.

How to spend it

Government spending on health, at less than 1% of GDP, is low compared with other countries in the region. And there are far too few doctors—just 21 per 100,000 people, extremely low by world standards. But an even more fundamental problem seems to be that resources are unevenly distributed across the archipelago, and are poorly and sometimes corruptly administered. Standards of training and monitoring health professionals are woeful.

A public health-insurance scheme for the poor, known as Jamkesmas, now covers about 76m people, nearly one-third of the population. But Ajriani Munthe Salak, of the Legal Aid Foundation for Health, says that the poor often have to pass through a bewildering series of bureaucratic hoops to receive treatment.

Still, half of all health spending is private, and Indonesia is a long way from agreeing on how to pay for its ambition of introducing a system of universal health care, by extending Jamkesmas to the entire population by 2012. In the meantime the financing of health care, like that of all public services, has been complicated by decentralisation, and the provision of care appears to be worsening.

One of the great assets Indonesian democracy inherited from dictatorship was almost universal access to primary education and very high levels of literacy. This is also a tribute to the success of Indonesian, the Malay-based national language, spoken as a mother tongue by very few Indonesians at the time of independence, yet now in use in almost every village. According to Juwono Sudarsono, a former education minister, the 1998 financial crisis forced 3m children to drop out of school. But this year primary-school enrolment rates are still about 95%.

The constitution requires the government to devote one-fifth of its spending to education. It has never met this target, but may come close this year, promising free education for all children—though in practice this will not be available everywhere. The need now is to produce better-trained teachers, help children in poorly served remote areas and help and encourage more children to stay on at school for longer. Enrolment rates for secondary and tertiary education are low: 60% and 17% respectively, compared with 69% and 29% in Malaysia, for example.

More than a single swallow

The rise of Chindonesia.



Come nest in me – Alamy

The best-maintained building in the remote village of Teluk Binjai in Riau province on Sumatra is neither the new, rather Spartan, wooden mosque nor one of the better-off local farmers' stilt-raised bungalows. It is the home for swallows. A windowless structure, it is studded with rows of dozens of gleaming access chutes. Tapes of alluring music tempt the flighty gadabouts to make themselves at home. Their health-giving nests, once harvested, fetch between 8m and 15m rupiah per kilo in Pekanbaru, the provincial capital, and far more still when they reach their destination: China.

China's voracious consumer appetites are already reaching into every corner of Indonesia. Even in Bali, the country's main tourist destination, the numbers of Chinese visitors are fast catching up with those from Australia and Japan. The increasing weight of China in every market is a global trend, but growing Chinese, as well as Indian, demand is making an especially big impact in Indonesia. Nick Cashmore of the Jakarta office of CLSA, an investment bank, has coined a new term to describe this symbiotic relationship: "Chindonesia".

Indonesia's pivotal role in this new "golden triangle" is as the supplier not only of birds' nests but of two even more vital commodities: palm oil and coal for power stations. Indonesia is now the world's largest producer of palm oil, having overtaken Malaysia in 2006. China and India between them already account for one-quarter of world consumption of palm oil and more than one-third of world imports. The area covered by Indonesia's palm-oil plantations has increased from 1m to 6.5m hectares.

Indonesia enjoys a big cost advantage over its main competitor, Malaysia, as it does over Australia in coal for power stations, another commodity where demand, led by China and India, is expected to grow hugely. Already, in the past 15 years, Indonesia's coal exports have grown at a compound annual rate of 15%. Last year its exports reached 190m tonnes, compared with Australia's 126m.

Indonesia's exports to "Chindia" made up 14% of its total exports last year, more than those to America (10%). Trade with China in particular is developing apace. Sino-Indonesian relations were frozen for a quarter of a century from 1967 after the massacre of suspected communists, including many ethnic Chinese, after Suharto's rise to power. Ethnic-Chinese Indonesians dominated big business, but even the display of Chinese characters was forbidden. Now the two countries like to boast of their "strategic partnership".

In March China provided a yuan swap facility worth some \$15 billion. This was both insurance against another run on the rupiah and part of China's experiment with using the yuan as an international currency. Indonesia is one of the countries where it is to try to start settling trade in yuan. Indonesian companies such as Sinar Mas, a big palm-oil exporter, say the central bank has sounded them out on their readiness to do so.

The relationship is not all sweetness and light. In July Muslim groups protested outside the Chinese embassy after the clashes with ethnic-Uighur Muslims in Xinjiang in China. Merpati, an Indonesian airline, has been in dispute with a Chinese supplier over its contract to buy 15 propeller aircraft. And Indonesian textile firms are lobbying against the full implementation from next year of the free-trade agreement between China and the Association of South-East Asian Nations.

Not making it easy

Why business in Indonesia has yet to take off.

The Suharto clan infected Indonesian business like a pandemic virus. Its direct business interests included power generation, toll roads, electronics, plastics, timber, paper, an airline, a taxi company, construction, fishery, food processing, broadcasting, banking, telecommunications, newspapers, plantations, property, shipping, cars and mining.

Besides its own investments, the family, and the mostly ethnic-Chinese tycoons through whom it acted, also played a vital agency function in awarding big foreign contracts. The system had

its defenders. Even a senior World Bank official noted that although a toll road built by a Suharto family enterprise might cost 20% more than it should, at least it got built. As corrupt systems go, it was relatively effective—rather like China's. But few outside the charmed Suharto circle mourn its collapse. The meltdown brought both a big increase in foreign ownership of Indonesian firms and a huge improvement in openness and management standards.

Some of the old groups survive. One, the Bakrie conglomerate, accounts for about a quarter of the trading on the Jakarta Stock Exchange. It came close to extinction both in the late-1990s crisis and in 2008. Its patriarch, Aburizal Bakrie, successfully straddled the Suharto and Yudhoyono regimes. But Bakrie is no longer typical. Its heavy weight on the exchange mainly reflects the thinness of the stockmarket, with a capitalisation at the end of last year equivalent to just 20% of the country's GDP, against 65% in Malaysia.

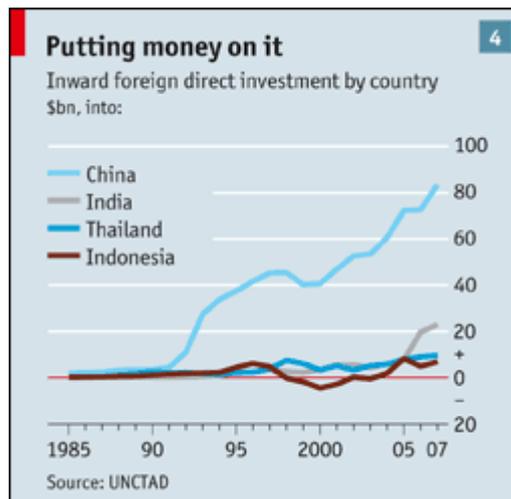
However, even a reformed Indonesia remains a hard place to do business, both for local entrepreneurs and, especially, for foreign investors. Fauzi Ichsan, an economist with Standard Chartered Bank in Jakarta, lists six main obstacles: legal uncertainty; the confusion brought by regional autonomy; tax problems; dealing with the customs agency; inflexible labour laws; and infrastructure. He says the ranking of these problems by his bank's clients has shifted. The top concerns used to be the law and decentralisation. Now the second-biggest worry is the labour market. Top of the list, however, is infrastructure.

Indonesia's roads, air- and seaports are inadequate. Electricity generation lags demand. Only 18% of the population have piped water and only 2.5% are connected to a sewerage system. Total investment in infrastructure, including that by the private sector, was estimated at just 3.9% of GDP in 2007, compared with about 10% in China and Vietnam.

Traffic gridlock looms in the big cities, especially Jakarta, where the number of motor vehicles has tripled to 9.5m in the past eight years but road space is growing at less than 1% a year. Construction of a mass rapid-transit railway is due to start in 2011, but with the number of passengers expected to reach just 400,000 a day by 2020 it will hardly ease the congestion.

A crash programme of power generation is not keeping up with demand, which has been growing by more than 6% a year for the past decade. PLN, the state power company, has been trying to encourage private-sector investment, but subsidised electricity acts as a disincentive. Tariffs have not increased since 2003. During the oil-price boom of 2008 they did not even cover the cost of the fuel burned in Indonesia's power stations.

Export industries are hampered by a lack of ports. Shipping costs are between 50% and 80% higher than elsewhere in the region. An estimated \$20 billion needs to be invested over the next five years, but efforts to draw up—let alone implement—a master plan for port development have foundered on the decentralised structure of government. Every district wants its own port, and some projects make sense only as tokens of national pride. For example, plans to develop Batam, an island designated as a special industrial zone, as a container terminal to rival nearby Singapore seem a waste of money. The whole point of choosing Batam for development was its proximity to Singapore.



Besides the competing interests of provincial and district governments, infrastructure development also has to contend with the difficulties of land acquisition. In the Suharto years land was often grabbed; now Indonesia has to make its grand plans within the constraints of a democracy.

Foreigners' Desultory Interest

In this respect, it is now less like an East Asian tiger than it is like India, another country that struggles to build the infrastructure it needs in the muddle and frustration of a democratic society. Also like India, until recently at least, it has failed to attract foreign direct investment in anything like the volume that has poured into China—or indeed, as a percentage of GDP, other countries in South-East Asia (see chart 4). FDI in Indonesia has averaged a mere 0.5% of GDP in recent years, and that includes a few very large items, such as BP's \$5 billion natural-gas project in Papua.



Indonesia has not managed to draw investment in the sort of labour-intensive manufacturing for export that fuelled China's boom. This is to squander a great comparative advantage: a labour force that is young, literate and cheaper than anywhere else in the region.

It does not help that Indonesia is suspicious of foreign investors. It posts a protectionist "negative list" of industries where FDI is capped, including pharmaceuticals, health care and construction. And it is constantly embroiled in disputes with foreign firms. In March, for example, an international arbitration panel ordered Newmont Mining, of America, and Sumitomo, of Japan, to sell some of their shares in a big copper-and-gold mine on Sumbawa

island. And in June it banned imports of some models of BlackBerry smartphones, made by Canada's Research In Motion.

A deep-rooted habit

The difficulty of battling graft.

Even before passing through immigration into Indonesia, you may fall prey to the venal flair of its bureaucrats. Most of its embassies now refuse cash payments for visas, after a number of scandals. One ambassador in Malaysia, a former police chief, allegedly pocketed about 2 billion rupiah from unauthorised visa surcharges. But many visitors can now get visas on arrival, payable in cash. To close this tempting window, Ngurah Rai airport in Bali last October introduced an electronic visa-issuing system. By May this year officials at the airport had used it to steal an estimated 3 billion rupiah. Their ruse, to issue 30-day visas, which cost \$25, but book them as seven-day ones at \$10, was simple and, until spotted, lucrative. The story is typical of Indonesian officialdom's greed, but also of the increasing efforts to thwart the corrupt.

The most effective weapon is democracy itself. Mr Yudhoyono's honest image is a big factor in his popularity. His running-mate, Boediono, is famously incorruptible. His campaign drew Goenawan Mohamad, a veteran and vigorously independent writer, into politics for the first time as an adviser. More than anything else, says Mr Goenawan, Mr Yudhoyono's legacy should be a clean government.

The introduction since 2005 of direct elections for local officials has also spawned a new accountability. Herry Zudianto, mayor of Yogyakarta, runs one of Indonesia's cleanest and most efficient administrations. Already mayor for five years when he faced an election in 2006, he was so popular that at first no candidate could be found to run against him.

Like Joko Widodo, mayor of the nearby city of Solo, Mr Zudianto has introduced "one-stop shops" for business permits. The previous long paper trail might require a bribe at every stop. In Solo, civil servants, in uniform, now sit behind open counters rather than in discreet booths, which forces them to conduct their business in full view. Mr Joko reckons that the cost of an identity card used to be between 25,000 and 100,000 rupiah; now it is a flat 5,000 rupiah. Applications for places at secondary schools are now made and adjudicated online, cutting off a nice little earner for officials at the better schools.

That, however, raises a question: how should honesty be rewarded? In the central government, bureaucratic reform was tested in Sri Mulyani Indrawati's finance ministry in 2006 and proved a great success in improving performance and cutting corruption. But to be able to pay staff properly for good, honest performance, a special new allowance had to be created, which has resulted in a fivefold increase in the take-home pay of some of the civil servants there.

Mr Joko says he cannot sack miscreant or incompetent civil servants, nor can he reward outstanding ones. He envies the reported initiative of the bupati of nearby Sragen, who curbed graft and increased local-government revenue by installing CCTV cameras to monitor a weighbridge and gave the officials involved a share of the tolls. But he sees no legal basis for it.

Alimin Siregar, an expert on decentralisation at the University of Riau in Pekanbaru, in Sumatra, claims that local democracy has succeeded mainly in devolving money politics. Local elites induce their local DPR member to sponsor a new district. When it is created, central-government money starts flowing. Stealing some of it allows those elites to recoup their investment and enrich themselves further.

A couple of hours outside Pekanbaru, two gleaming new palaces stand incongruously in the middle of nowhere. One is the assembly for the local legislature of Pelalawan district. Next door is the bupati's mansion. He is currently in jail convicted of corruption over logging concessions.

A gecko among crocodiles

Besides the ballot box, the other big weapon against corruption is the Corruption Eradication Commission, known as the KPK, an independent body formed in 2002 that has considerable powers. Its trophies include several DPR members, a police chief, provincial governors, city mayors, a central-bank governor and, among several other central-bank officials, one whose son is married to Mr Yudhoyono's daughter. Only one of the KPK's own investigators has joined this select band, incurring a 30% supplement to his jail term, in accordance with his contract of employment. The KPK, which deals only with big cases, has managed to make the perpetrators of some of the more egregious instances of public robbery a mite nervous.

It is, however, in some trouble. In April its chairman was jailed for suspected murder, prompting lurid stories of an alleged love triangle involving an attractive golf caddie. More seriously for the institution, the DPR has been talking about whittling away its powers—against which, says Mr Goenawan, “all democratic forces of spirit should scream”.

Some such spirited forces took to the streets of Jakarta in July, calling themselves “Cicak”, the Indonesian for gecko, but also an acronym for “Love Indonesia, Love the KPK”. This was a reference to a remark by a senior policeman that the KPK's investigators, in tapping his telephone, were “like geckos trying to fight a crocodile”.

The behaviour of the police is one reason why Indonesia's ranking in Transparency International's (TI) annual Corruption Perceptions Index for 2008 improved only marginally on the year before, from 143rd out of 179 countries to 126th out of 180. According to a report this year by Amnesty International, a human-rights watchdog, the police in Indonesia—separated from the armed forces as one of the first big acts of reform in 1998—“are still perceived today as a highly corrupt and mistrusted institution”. Officers, it noted, “often behave as if they are above the law”.

Haryono Umar, one of the KPK's commissioners, does not dispute Indonesia's poor showing in TI's league table. It is based on perceptions. And most Indonesians, not unreasonably, perceive an encounter with the police or with a government official as costly.

Acacia avenue

How to save Indonesia's dwindling rainforests.



Where tigers roam no more - Still Pictures

As a spectacle, the four-hour drive to Teluk Binjai from Pekanbaru, capital of Riau province on the island of Sumatra, tends to the monochrome. Mile after mile of palm-oil plantation alternates with mile after mile of regimented lines of acacia trees, grown for pulpwood. Only an occasional banana grove or superannuated rubber plantation offers a spot of variety. Mountainously laden timber lorries ply the interprovincial highway, their loads of acacia logs almost brushing as they pass. In one direction is the mill of Indah Kiat Pulp and Paper, a subsidiary of APP, part of the Sinar Mas group; in the other that of APRIL, Sumatra's other big pulp-and-paper producer.

Off the main road, small patches of "natural" forest survive alongside the swathe of broad sandy corridor cut by a logging company. Some has been cleared fairly recently. Shrouded in white smoke, the peat soil still smoulders under the blackened tree-stumps. Gaunt and barkless, some trees still stand, like skeletal ghosts stalking a battlefield. Underneath, already oil palms are pushing up, planted by local farmers to feed Indonesia's latest commodity boom.

In Teluk Binjai, a village of 400 families sprawling along the bank of the Kampar river, and its neighbour, Teluk Meranti, farmers feel squeezed. Living inside a logging concession, their access to the forest behind their farms is already curtailed. They want to be granted rights to 5,000 hectares of forest on the other side of the river, in the Kampar peninsula. This area of 700,000 hectares of peat forest, home to tigers, sunbears, hawk-eagles and other endangered species, is now being fought over by plantation companies, forest residents and local and international NGOs.

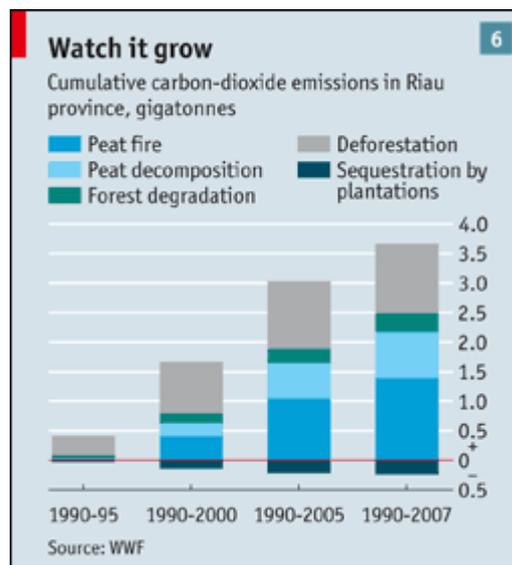
The stretch the villagers have their eye on is also part of a concession. They admit they have no legal right to the land, but they say the concession to convert it to acacia is illegal, since the area is supposedly protected. And the villagers claim customary rights. Their families have used the forest for generations. They still depend on it for rattan, fuel, honeybees, hunting and wood to build their houses and boats. But they use the resource responsibly, claims Muhammad Yusuf, a local farmers' leader: "We only take the best trees." And no more than they need.

Illegally, some farmers are already staking out claims across the river in the sought-after stretch of forest. One, in his second year there, says the village chief in Meranti granted him a six-hectare claim after his coconut grove in Teluk Binjai was destroyed in a land-clearing fire. He is planting oil palms. Speaking in a tiny hut, against the whine of a chainsaw from the

nearby rainforest, he says he is too poor to send his 12- and 14-year-old sons to school. They are working in his fields, helping convert another small patch of peatland, and adding to Indonesia's alarming emissions of carbon dioxide.

Stop it, for peat's sake

Indonesia's logging of its rainforests has long been identified as a big contributor to the world's emissions of greenhouse gases (GHGs), and hence to global warming. This is one reason for the shocking statistic that Indonesia trails only China and America as an emitter of carbon. But now attention is also turning to the soil beneath the trees, and especially to peat. Al Gore, a former American vice-president and a vigorous climate-change campaigner, has pointed to evidence that the top two metres of soil contain three times as much carbon as the entire vegetation on the planet, and that soil degradation, such as the burning of peatland, is the main cause of Indonesia's high level of emissions.



According to Greenpeace, an environmental NGO, Riau's peatlands have the highest concentration of carbon stored per hectare anywhere in the world. As elsewhere in Indonesia, peat in Riau is disappearing. The trees growing on it are harvested and the land is either abandoned or converted to a plantation. Every year 1.8 billion tonnes of GHG emissions are released by the degradation and burning of Indonesia's peatlands. By the calculation of WWF, an NGO, between 1990 and 2007 Riau alone produced more CO₂ per year than Germany is saving to meet its commitments under the Kyoto protocol.

Small-scale settlers like those clearing the bit of forest opposite Teluk Binjai are a tiny part of the problem. Far more significant, in Riau ("the deforestation centre of Indonesia", according to Yumiko Uryo of WWF) and across Indonesia, are large-scale commercial operations: illegal logging and the conversion of forest land by big plantation companies. By WWF's estimate, of the forest cover in Riau lost in the past 25 years, 29% was cleared for palm-oil plantations and 24% for pulpwood by the big producers themselves—not counting large areas cleared by their suppliers.

The extent of illegal logging, like every other statistic on Indonesia's forests, is disputed. By one reckoning, 73% of the \$1.6 billion-worth of forest products (not including raw logs, whose export is banned) the EU imported from Indonesia last year came from illegally felled timber. But that is a guess, derived by deducting the timber that can be shown to be legal, a process complicated by the often murky ownership of the original forest lands. The Indonesian government reckons that no more than 10% of exports are illegal. It is working with the EU to

devise a licensing system for timber exporters which would then be applied globally. Indonesia also faces difficulties in America. Congress, inspired by an unlikely coalition of domestic timber producers and NGOs, last year amended the Lacey act, a law dating from 1900 that bans the illegal commercial transportation of wildlife. It now covers the produce of illegal logging as well.

Protection of the forest against illegal loggers and enforcement of the law are said to have improved since 1997, when forest fires in Sumatra and Kalimantan (Indonesian Borneo) smothered much of South-East Asia in a noxious, choking haze. The fires were spread by a prolonged drought brought by an El Niño weather pattern. Many were lit to clear land illegally logged. And even now the legal arrival of a logging company in an area is often accompanied by criminals chopping away at the edge of the concession. Decentralisation has complicated efforts to enforce the law. Local authorities resent efforts by the central government to assert control.

Hotspots of bother

Indonesia's government denies it is doing as much to cook the planet as its critics allege. Agus Purnomo, a former director of WWF in Indonesia who now heads the secretariat of the National Council on Climate Change, says that the country's third place in the carbon-emissions tables is a hangover from the disastrous El Niño of the late 1990s. With no serious forest fire for four years, he claims Indonesia has slid down to number 15 or 20. He reckons that the "hotspots" (small-scale forest fires) recorded this year—3,764 in Riau alone by July, according to a count by satellite—are "not a big issue". Hotspots are now designated as crime scenes, he says, so that no one is allowed to plant oil palms there. If caught, those who caused them are prosecuted and sometimes jailed.

He points out that it is in Indonesia's own interests to do its bit to reduce GHG-emissions and hence global warming. A study this year by the Economy and Environment Programme for South-East Asia, based in Singapore, mapped vulnerability to climate change across the region, divided into 530 subnational districts. Of the ten most endangered by climate change, seven were on Indonesia's most populous island, Java, which would become increasingly prone to droughts, floods, landslides and a rise in the sea level.

Even more immediately, Riau, for example, is suffering a localised haze at the moment. It is not quite the eye-stinging, throat-burning, aviation-disrupting peasouper seen in 1997, but still the town of Dumai recorded a surge in acute respiratory illnesses in June and July.



Blucher Doloksaribu, who heads the provincial government's Geophysical, Climatology and Meteorology Board, reckons Riau is already suffering its own local, accelerated version of global warming. As forest cover has shrunk from 78% in 1982 to 27% today (see map), minimum temperatures in Riau have increased, he estimates, by an average of 2°C.

After a de facto two-year moratorium for an investigation into alleged corruption, logging has resumed in earnest in Riau this year. Green activists link this to the elections and the need for parties to raise funds.

The big pulp-and-paper and palm-oil companies have several lines of defence against attacks from greens. Responding to growing concern about the impact of palm-oil plantations, the big producers and consumers have joined a round-table on sustainable production. The firms insist that they do follow the law, logging only the "production" forests for which they have bought concessions. But their critics allege that they also buy from less scrupulous subcontractors, and that this year the pressure is especially intense since the moratorium had forced pulp companies to eat into their plantation forests earlier than they would normally have done.

The firms also defend their own practices as responsible and sustainable. Sinar Mas, for example, has set aside some 72,000 hectares (an area bigger than Singapore) of "production forest" as a protected "biosphere", where the trees and wildlife will be preserved. Some even argue that palm-oil and acacia plantations can actually help reduce GHG emissions, though scientists scoff at this notion when the plantations are on cleared natural forest and, especially, peatland.

But Gandhi Sulistyanto, Sinar Mas's managing director, also points to the huge economic benefits his business brings Indonesia, directly and indirectly supporting millions of people and producing more than one-tenth of Indonesia's exports. More than half of Sinar Mas's exports go to China and India. So, despite boasting of his firm's green credentials, and his concern for minimising carbon emissions and saving biodiversity, he cannot conceal his impatience with NGOs: "They care about the orang-utans [which are indeed threatened by the spread of plantations], not the oranges [people]."

The great green hope: REDD

Mr Sulistyanto hopes Sinar Mas's biosphere in Riau may yet bring the firm some income from an initiative known as Reduced Emissions from Deforestation and Degradation (REDD). This is an idea that sounds almost too sensible to have gained currency. Since developed countries have become rich partly by cutting down their trees, and since old forests are better at storing carbon than new ones, it seems fair for the rich world to pay the poor world to stop logging (rather than, as at present, merely to plant new trees, under the so-called Clean Development Mechanism). There is a lot to preserve. More than half of Indonesia is still covered in forest. Sumatra may be a lost cause, like much of Kalimantan. But there is still, for example, Papua.

REDD forms part of the negotiations on a successor to the Kyoto protocol, which will reach a climax at meetings in Copenhagen this December. The idea may be better known in Indonesia than anywhere else. Businesses are already earmarking scraps of their concessions; Merrill Lynch, a big American investment bank, is nurturing a project; less established "carbon traders" are setting up shop in Indonesia; villagers in places like Teluk Binjai have visions of leisurely retirement at the international taxpayer's expense; and the government is creating a complex bureaucratic infrastructure. The forestry ministry has already issued rules on the sort of conservation projects that might be eligible, as well as guidelines on splitting the revenue.

But so far forest carbon credits remain a small, voluntary market. Gordon Brown, Britain's prime minister, has said a deal at Copenhagen should include transfers of \$100 billion a year

to the developing world, which would include funds for preserving forests. But there are plenty of question-marks still: the price of carbon, for one thing; how the money should best be used; and whether it would really be paid in perpetuity.

Agus Purnomo of Indonesia's climate-change council is a sceptic. He finds it hard to believe that the sort of money needed to compensate for the loss of deforestation revenue would be forthcoming. The range at present under discussion—\$3-10 per tonne of carbon emissions saved—would be wholly inadequate. He agrees with many that the main point of Copenhagen must be “deep, deep cuts” in rich-world emissions. “You cannot leave saving the atmosphere to poor people.”

So it is not easy to be optimistic about Indonesia's forests. Ahead of big international gatherings the government makes big promises. It has, for example, banned the conversion of land where the peat is more than three metres deep. But green groups say that hardly helps, since peat bogs have varying depths, and draining a shallow part will erode the rest. The commercial pressures are bound to grow. The conversion of acacia and eucalyptus as cellulose for biofuels will add a new market, and the development of palm-oil micro-refineries will make it much easier to get the fruit to a refinery within 24 hours of harvesting. Perhaps most urgently, a renewed El Niño is brewing, threatening drought and devastating forest fires.

For the government, carbon emissions will become an ever more galling issue. Just as the country seems ready to take its place on the international stage, gaining credit for its peacefulness, its stability and its pluralism, it will find itself under attack, however unfairly, as a vandal on a planetary scale.

Everybody's friend

Indonesia deserves a better image.



Secretary-of-state visit – AP

In most other respects this is a golden age for Indonesian diplomacy. Its relations with its neighbours are sometimes prickly, especially with Malaysia, with which it squabbles over everything from maritime boundaries to the treatment of migrant workers. And there will always be some resentment of Singapore, a regional haven for the wealthy and, at times, a bolthole for fugitives from Indonesian justice. But these two are also partners with Indonesia in

the Association of South-East Asian Nations (ASEAN), so they are among its closest allies. In general Indonesia is on good terms with all countries.

Its international standing has risen. Besides being an applicant-in-waiting for what would become the BRIIC group of leading emerging markets, it is a member of the G20 group of countries that is taking on more responsibility for running the world. It is seen as a democratic bulwark against extremist Islam, and as a vital American ally. Hillary Clinton included Indonesia on her first foreign tour as secretary of state. President Barack Obama, who spent four years at school in Jakarta, is due to visit, probably in November. As already noted, China and India are also courting Indonesia. So are Japan and the European Union, which in July lifted a ban on four Indonesian airlines on safety grounds, removing a big irritant.

As much the most populous country in South-East Asia, and its biggest economy, Indonesia has always played a dominant role in ASEAN. The regional group, after all, was founded in 1967 partly to contain Indonesia after a confrontation with Malaysia that stopped short of war. But under Suharto Indonesia led by stealth, through the power of veto, rather than as ASEAN's public face. Now there are signs that it may become more assertive, and in an encouraging way—speaking up for the importance of democracy and human rights in a group that is too often prepared to soft-pedal, especially over Myanmar.

As ASEAN moves towards greater economic integration at glacial speed, Indonesia has a belated chance to position itself as a regional hub. Officials like to point to this year's decision by Volkswagen of Germany to assemble cars in Java for the ASEAN market. The underlying argument is that Indonesia, because of the size of its domestic market, should be the logical destination for foreign investors looking for a base within ASEAN from which to attack the regional market. But so far firms have rarely chosen Indonesia for such a role.

One reason is the range of obstacles to doing business cited earlier in this report, from unreasonable nationalism through endemic corruption and administrative confusion to appalling infrastructure. Another is Indonesia's image problem. It suffers unfairly from an outside perception that it is a risky and unstable place. An instructive comparison is with India, which has seen far more violent and intractable insurgencies—from Kashmir on the periphery to Maoist Naxalites in its very heart. It is also prey to many more frequent and murderous terrorist attacks, and has testy relations with a nuclear-armed neighbour. Yet, in stark contrast to Indonesia, it is considered a bastion of stability.

Some Indonesian thinkers, meanwhile, are looking beyond ASEAN. Rizal Sukma, of the Centre for Strategic and International Studies, a Jakarta think-tank, has argued that good relations with its neighbours in ASEAN should not be the country's only concern. His call for a "post-ASEAN foreign policy" reflects both frustration with the caution shown by the regional group and a sense that it is time for Indonesia to adopt a higher profile.

With luck, it will. It has already shown remarkable powers of recovery after a long dictatorship and economic collapse. It could become a model of democratic change, Muslim tolerance, poverty eradication and rapid economic development.

As this report has shown, at present all of these are at best work in progress. The country is still struggling to meet its interlinked goals of sustained economic prosperity and political stability. But it is inching closer, and its chances of getting there have never been better.

Sources and acknowledgments

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